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SUBJECT: (S) JAMAICAN-VENEZUELAN RELATIONS: AN INSIDE VIEW
FROM THE MFAFT (PART I)

REF: 07 KINGSTON 1793

Classified By: DCM James T. Heg for reasons 1.4 b and d

1. (S) The text below is taken directly from an internal briefing document drafted by the Jamaican Ministry of Foreign Affairs and Foreign Trade (MFAFT)'s Bilateral Relations Department. The document was dated October 1 2007 and prepared for the then-newly elected Prime Minister Bruce Golding. PM Golding provided Ambassador Johnson a copy of the document during a recent private meeting (see reftel).

(BEGIN TEXT)

Historical Review of Jamaica/Venezuela Relations

1. (C) Jamaica and Venezuela traditionally have enjoyed friendly and mutually beneficial relations, since the establishment of diplomatic ties on 25 March 1965. Jamaica's historical relations with Venezuela, however, date back to the early 19th Century when Simon Bolivar, the architect of the independence of Venezuela and several Latin American countries, took refuge in Jamaica in 1815. It was then that he penned his now famous Jamaica Letter, in which he wrote of his grand vision for the integration of the Americas; "More than anyone, I desire to see America fashioned into the greatest nation in the world, greatest not so much by virtue of her area and wealth as by her freedom and glory. Although I seek perfection for the government of my country, I cannot persuade myself that the New World can, at the moment, be organized as a great republic". This historic link is well known and appreciated in Venezuela, and represents a fraternal bond between the two countries.

2. (C) Despite successive changes in political administrations of both countries, the close governmental relationship has remained uninterrupted. This has facilitated the smooth development of bilateral relations, which are characterized by frequent exchanges of high-level visits and a steady expansion of economic and technical cooperation. Jamaica and Venezuela have also collaborated closely at the

regional, hemispheric and international levels.

¶3. (C) Economic cooperation between the two countries has been and remains a strong feature of the relationship. The major component currently is in the area of energy, even though agreements have also been signed in several other areas. Jamaica's reliance on financial assistance from Venezuela has remained constant, and successive administrations have sought and received significant support.

¶4. (C) The 1980s was a period of intense economic cooperation between the two countries, with the government of Luis Herrera Campins providing some USD 350 million in financial and technical assistance to the Edward Seaga administration. This amount was roughly equivalent to the combined sums offered to Caribbean and Central American countries by US President Ronald Reagan, in his significant speech before the Organization of American States (OAS).

¶5. (C) At the beginning of the 1990s, the Michael Manley administration, as it had done in the 1970s, sought the assistance of the Carlos Andres Perez administration in Venezuela to assist Jamaica to deal with increases in global oil prices. This was done through the San Jose Accord, which provided a special facility for oil importing countries of the region. Venezuela also continued to provide Balance of Payment support to Jamaica.

Current Relations

¶6. (C) Jamaica and Venezuela continue to enjoy excellent relations at various levels. Jamaica's current relations continue to be driven largely by its economic interest, evidenced by an increasing reliance on Venezuela as a source of energy supplies, as well as financial and technical assistance.

¶7. (C) Since his election in 1999, President Hugo Chavez Frias has shown a determination to strengthen relations with the Caribbean, and Jamaica in particular, as part of his grand vision of hemispheric integration. A watershed in Jamaica/Venezuela relations was therefore celebrated in Montego Bay on 23rd August 2005, with the Official Visit of President Chavez for the signing of the historic PetroCaribe Energy Cooperation Agreement.

¶8. (C) The Venezuelan opposition has voiced concerns about President's Chavez's keen interest in Jamaica, sometimes observing that the President is willing to spend money in improving infrastructure in other countries (Jamaica) which could have instead been spent on programs within Venezuela. The Venezuelan media have expressed similar concerns.

¶9. (C) In fact, Forbes magazine reported on 26th August, 2007 that the Chavez government is currently offering more direct state funding to Latin American and Caribbean (LAC) countries than the US. It stated that Venezuela had provided a total USD 8.8 billion to LAC in aid, financing and energy funding up to mid-2007, compared to US grants and loans to the region of USD 3 billion in 2005.

Current State of the Venezuelan Economy

¶10. (C) The Venezuelan economy grew by 8.9 percent during the second quarter of 2007, the fifteenth consecutive quarter of significant growth.

¶11. (C) According to the Finance Minister, Rodrigo Cabezas, overall growth this year will be at least 8 percent compared with an average for Latin America of 3.5 percent. This level of growth, the Minister argues, is being translated into greater social well-being for the population through a variety of social policies which by year end should be reduced to 7 percent. Venezuelan expectations about the

economy and polling company Datanalysis, which says that over 80 percent of Venezuelans are cheery about the country, although there is still a lot of caution among businessmen and among potential foreign investors.

¶12. (C) In relation to inflation and liquidity (the country is awash with petrodollars) Cabezas has said that there is pressure on prices but that the 12 percent target for FY 2007 was still within reach through the application of a policy of fiscal responsibility, but that this did not suggest the adoption of neo-liberal policies as is being recommended by the IMF.

¶13. (C) Regarding the Balance of Payments (BOP), according to the Venezuelan Central Bank (BCV), income derived from oil exports declined during the second quarter 2007 at the same time that expenditure on imports climbed steeply. Petroleum exports declined 9.2 percent in Q2 2007 to USD 15.092 billion, while imports rose 38.7 percent from USD 7.85 billion to USD 10.89 billion. This shows that compared to Q2 2006 when 43 cents of every petrodollar earned was spent on imports, Venezuelans in Q2 2007 spent 72 cents. The Central Bank's view is that the increase in imports is associated with the growth the economy is experiencing and that much of the imports are accounted for by capital goods. Another view is that the overvaluation of the Bolivar (the parallel rate is twice the official rate), is driving the surge in imports. Nonetheless, there is a surplus on the BOP and the NIR picture is still rosy.

There are several implications to the above economic scenario, including the following, which may have some relevance for Jamaica:

¶A. A growing economy suggests the sustainability of Venezuelan technical assistance;

¶B. With oil production and export volumes falling, meeting quotas may become more difficult while dependence on high prices may become greater; and

¶C. Financing the Jamaican Embassy in an inflationary, fixed exchange rate regime presents some challenges.

Main Areas of Cooperation

PetroCaribe Energy Cooperation Agreement

¶14. (C) The Agreement came into effect on 29th June 2005 and replaces the Caracas Energy Agreement. The San Jose Accord, to which Mexico is also a party, is still in effect. Under the Agreement, Venezuela undertakes to supply Jamaica with 23,500 barrels per day of crude oil, refined products and Liquefied Petroleum Gas (LPG) or its energy equivalents. This occurs via a price formula that is based on the current purchase prices (FOB-VZLA) of a barrel of oil.

¶15. (C) The financing scheme for Jamaica's supply quota of 23,500 bpd includes a grace period of up to 2 years for capital repayments, as well as an annual interest rate of 2 percent on applicable volumes, where prices are less than USD 40 per barrel. When the price of a barrel of oil exceeds USD 40 the interest rate is reduced to 1 percent and the repayment period extended from fifteen to twenty three years, plus the two-year grace period for a total of twenty five years. The portion of the supply quota that can be financed under the deferred payment scheme is related to the per barrel price of oil and detailed on a scale that ranges from 5 percent to 50 percent. Should the price of oil reach USD 100 per barrel then as much as 50 percent of the total value of Jamaica's oil purchases can be deferred, for a period of twenty five years at 1 percent interest.

¶16. (C) Although the Agreement requires the GOJ to pay the full market price for crude oil and petroleum products it

also provides for a portion of the deferred payment obligation to be paid for with goods and services. Furthermore, the deferred financing loan provisions of the Agreement eliminate the GOJ's immediate need for foreign exchange for repayment, thereby easing the pressure for currency devaluation which would trigger inflation. In addition, the loan comes without the conditions usually attached by international lending agencies.

¶17. (C) The portion of the crude oil and petroleum product imports that can benefit from the deferred payment scheme is convertible into a concessionary loan at interest rates of between 1 and 2 percent. In keeping with the philosophy of the Venezuelan Government, resources in the Fund are available to support social and economic development programs, in order to improve the quality of life of the poor. The Ministry of Finance is responsible for managing the Fund and Cabinet approves the various programs and projects that are undertaken.

¶18. (C) Within the price of oil on the world market currency hovering in the USD 70 to USD 80 per barrel range, the PetroCaribe Agreement has enabled Petrojam to forego having to purchase approximately USD 4.6 million per week in foreign exchange, in order to source crude on the spot market. In this connection, the value of the Agreement to the stability of the Jamaican dollar, which is oftentimes overlooked, is of immense macro-economic significance to the country.

¶19. (C) An issue that has arisen and which is currently being negotiated relates to the amount of crude oil that was imported by Petrojam in 2006, which was in excess of Jamaica's quota under the Agreement. The amount imported last year was 24,600 bpd, which is 1,100 above quota. Petrojam and

PCJ contend that Jamaica should be entitled to carry-over this excess quantity, as a charge against the current year's quota. The Venezuelan authorities (PDVSA) however, argue that no agreement was reached between the two countries to permit this type of flexibility to be applied in the operation of the quota. It is to be noted that although operational, the renewal of the Agreement for the current period, i.e. 29 June 2007 to 28 June 2008 remains outstanding. (COMMENT: Minister of Energy, Mining and Telecommunications, Clive Mullings told the Ambassador and Econoff on January 23 that the agreement was renewed after the December 2007 PETROCARIBE conference in Cuba. END COMMENT).

Petrojam Upgrading and Expansion

¶20. (C) The governments of Jamaica and Venezuela through the Petroleum Corporation of Jamaica (PCJ) and Petroleos de Venezuela S.A. (PDVSA) have entered into a Joint Venture Agreement to partner on an expansion and upgrading project for the Petrojam refinery. The project is slated to be done in two phases; Phase 1 is currently underway, and is expected to be completed by the end of 2009, at an estimated cost of approximately USD 250 million.

¶21. (C) Shares in the joint venture are allotted on a 51/49 percent basis, with Petrojam holding majority shareholding. The end result of the upgrade will be to expand the capacity of the refinery from 36,000 to 50,000 bpd and through the introduction of new processing technology, to increase the proportion of higher quality fuel produced from crude supplies.

¶22. (C) The capital requirements of the project will be met by both parties as equity partners, through a combination of debt and equity financing. There will be joint ownership of existing Petrojam assets by the Joint Venture partners in the first instance. Subsequently, the expanded refinery will be owned and operated under a common ownership structure.

¶23. (C) It should be noted that to date, PDVSA has not provided payment for its 49 percent equity shareholding, which is valued at USD 63.7 million. The resolution

authorizing payment is awaiting the signature of the PDVSA Board of Directors. The latest official word (as of 1st October, 2007) is that the signature of the Minister of Energy and Petroleum, Rafael Ramirez, is the only one that remains to be affixed.

¶24. (S) (COMMENT: Jamaica has yet to be paid by Venezuela for the 49 percent stake, which has been an issue of concern for the cash strapped GOJ. In December 2007, Golding told Ambassador Johnson he hoped to receive a USD 70 million payment from Chavez, see reftel. However, Minister of Energy, Mining and Telecommunications, Clive Mullings told the Ambassador and Econoff on January 23 that the money still had not been paid. Mullings said the GOJ hoped the funds might come by the end of the month, but he did not appear confident of this. The GOJ is in serious need of these funds, the 2007-08 GOJ budget is already expected to miss its targets. Government expenditures will surpass revenue collection by about six percent, which is above the 4.5 percent target. At the same time the inflation rate for 2007 was 16.8 percent which is well above the GOJ target of 6 to 7 percent. Failure by the GOJ to collect these funds would further exacerbate the budget deficits. END COMMENT).

Highway 2000 Refinancing

¶25. (C) Venezuela's development bank BANDES undertook to refinance USD 260 million worth of loans secured since 2005 to undertake the Highway 2000 project. A Heads of Agreement for funding the project was signed by both parties in Venezuela in January 2006.

The main features of the agreement are as under:
Borrower - Development Bank of Jamaica (DBJ)

Lender - Venezuelan Bank for Economic and Social Development (BANDES)

Loan Amount - USD 260 million equivalent

Current - EUROS

Interest Rate - Fixed 7.5 percent (indicative swap rate in Euros, using as a reference the International Bond Rate of 9.25 percent)

Maturity - 2005

The loan represented savings on interest costs charged to the project of approximately JAD 1.8 million per working day.

The transactions for the final tranche of the loan payment by BANDES were finalized on August 15, 2007.

Liquefied Natural Gas

¶26. (C) Negotiations have been on-going between PCJ and PDVSA Gas regarding the sourcing by Jamaica of LNG from Venezuela. Discussions had also centered on the possibility of securing LPG or Compressed Natural Gas (CNG) supplies. However, PDVSA Gas has recently taken LPG and CNG off the table. Having analyzed the situation, they claim they would not have enough extra LPG to supply to Jamaica as an interim to LNG. In terms of CNG they have expressed concerns about both its availability and the technology that is required. As such, the discussions now solely revolve around the possible supply of LNG.

¶27. (C) Despite the mention of larger volumes earlier in the discussions, PDVSA Gas' current position is that it can only commit to 1.2 million tones of LNG per annum at this time, although the possibility of negotiating a greater amount in the future will remain open. The 1.2 million tones would represent 25 percent of PDVSA Gas' total LNG production.

¶28. (C) One point of contention is that PDVSA Gas wished to make the supply commitment an annual one, i.e. renewable each year. This is the type of structure it uses in the oil industry and applies to the PetroCaribe Agreement, for example. The Jamaican negotiating team pointed out that this

structure would not work in the LNG industry and that Jamaica was looking for a 20-year supply commitment. PDVSA Gas does not yet have any proposals regarding pricing, but it has been agreed that there should be some language in a MOU that signals the intention to supply gas to Jamaica on a favorable pricing basis.

¶29. (C) Despite not having sufficient supplies of LPG to substitute for LNG, PDVSA Gas has demonstrated great interest in going after the existing LPG market in Jamaica and are keen to have discussions in this regard.

¶30. (C) PDVSA Gas' current development schedule is for its LNG facility to be commissioned in the last quarter of 2012, so effectively Jamaica could not expect supply before 2013. The company has completed pre-FEED studies, but the FEED for its LNG facility is not expected to be finished before end-2008. It is likely, therefore, that Jamaica would have to wait a fairly long time to secure supplies of LNG from Venezuela.

Simon Bolivar Cultural Centre

¶31. (C) The project is designed to commemorate Simon Bolivar's sojourn in Jamaica, as well as to celebrate the strength of relations between Jamaica and Venezuela. The Centre will comprise an exhibition hall and theatre, to be housed in a renovated two-storey Georgian building (the old Jamaica Agricultural Society building at the corner of North Parade and Church Street). The development plan for the Simon Bolivar Exhibition Hall represents the construction of a new 280-300 Repertoire Theatre, and the restoration to their former glory of two structures of historic architectural significance from the Georgian period.

¶32. (C) The UDC has completed the acquisition of the property from the Jamaica Agricultural Society that will serve as the location for the Centre. The GOJ has received grant funding from the Government of Venezuela in the amount of USD 2 million to undertake the project. An amount of USD 640,000.00 is being provided by the GOJ as counterpart funding.

¶33. (C) Although the architectural designs have been completed, the UDC is awaiting the go-ahead from the Venezuelan government, which has yet to authorize the payment to be made to the Venezuelan architects. The completion of the designs were severely delayed, as a result of modifications that had to be undertaken in order to bring them into compliance with the requirements of the Jamaican planning authorities. Design approval is still being awaited from the KSAC.

Jamaica,s Request for Emergency Fertilizer Supplies

¶34. (C) Prime Minister Simpson Miller met at Vale Royal on 2nd August, 2007 with a Special Envoy dispatched by President Chavez, Vice Minister of Foreign Affairs Rodolfo Sanzo. The purpose of Vice Minister Sanz's visit was to encourage Prime Minister Simpson Miller to personally attend the 3rd PetroCaribe Summit, which took place in Caracas on 9th-10th August, 2007. Prime Minister Simpson Miller had previously indicated that she was unable to attend the Summit, due to the imminence of the General Elections. In the event, the Special Envoy was unable to persuade the Prime Minister to change her decision in this regard.

¶35. (C) Prime Minister Simpson Miller used the opportunity of her meeting with Vice Minister Sanz to make an urgent request for the Government of Venezuela's assistance in the provision of fertilizer, which she indicated Jamaica was willing to pay for on a normal commercial basis. She explained that the cost of fertilizer was exorbitant and that Jamaican farmers had complained loudly that they could not afford it. Vice Minister Sanz promised to communicate the request to President Chavez and provide a response as soon as possible.

¶36. (C) Since the meeting, contact has been made with the Venezuelan company PEQUIVEN, which has advised that it has instructions "to supply Jamaica with fertilizer in the most economical and efficient way possible." It has proposed two options: a) physically mix the three basic components in Venezuela and ship the product to Jamaica; or b) ship the components to Jamaica and have the blending done there. PEQUIVEN advises that the second option is preferred, as a blended product is altered on being transported (some possible separation) and in addition, a recently blended fresh product is more efficacious. Option two is also likely to bring other benefits to the importer, in terms of price and transport costs.

¶37. (C) The Ministry of Agriculture had advised that as the GOJ did not have any blending facilities available, its preference was to import blended and bagged fertilizer. This had been communicated by the Mission in Caracas to PEQUIVEN.

PEQUIVEN has recently been in touch with Fersan, a firm from the Dominican Republic based in Jamaica, which advised that it could do the blending. PEQUIVEN is willing to work with Fersan to supply it with the components, subject to GOJ agreement.

Proposed Construction of Children,s Hospital in Western Jamaica

¶38. (C) In mid-July 2006, the Ministry of Health submitted a Concept Paper to the Foreign Ministry on the establishment of a Children's Hospital in Western Jamaica. This followed a request that was made by Prime Minister Simpson Miller to President Chavez, during his visit on 12th March, 2007 when an MOU on the Development and Expansion of Gas in Jamaica was signed.

¶39. (C) Jamaica's Mission in Caracas informed on 15th August, 2007 that the Concept Paper had been provided to the Venezuelan health authorities. The Mission noted, however, that what would now be needed is a decision to be taken at the highest political level. It also noted that the initial Concept Paper was short on technical details, which would be required in order to move the project forward, once the political decision had been taken by President Chavez.

Politically Sensitive Issues

¶40. (C) Jamaica has become increasingly reliant on Venezuela as a source of energy supplies and of financial and technical assistance. It may, therefore, be asked to pay an ideological price for the support it has received, viz. to subscribe to President Chavez,s dream of creating a strategic anti-imperialist alliance of Latin American and Caribbean countries.

¶41. (C) Jamaica needs to be fully cognizant of the economic threat that a fall in oil prices could pose to Venezuela's ability to continue to fund its development programs and projects. Political changes in Venezuela could also adversely affect Jamaica's active bilateral cooperation program with Venezuela.

¶42. (C) There is the possibility that Jamaica's relations with the US, and to an extent the UK and Canada, may be negatively affected as a result of the perception that it is forging closer political, ideological, economic, and trade ties with Venezuela. This comes against the background of strained US/Venezuela relations. The US views Chavez as a "negative force in the region", and has been mobilizing political support for a "united front" of Latin American and Caribbean nations. This has caused increased scrutiny to be placed on Jamaica's relations with Venezuela and consequential pressure to reduce the level of bilateral interaction.

¶43. (C) The US mounted vigorous efforts to lobby against

Venezuela's bid last year to secure a nonpermanent seat on the UN Security Council, which saw the US Ambassador in Kingston meeting with the Jamaican Prime Minister to urge support for Guatemala's bid.

Bolivarian Alternative for the Americas ALBA

¶44. (C) The Bolivarian Alternative for the Americas (ALBA) trade block was created a little over two years ago by Venezuela and Cuba as an alternative to the Free Trade Area of the Americas (FTAA) promoted by the US. The governments of Bolivia and Nicaragua later joined the ALBA project, and Ecuador has evaluated the possibility of joining as well. It represents the first attempt at regional integration that is not based primarily on trade liberalization but on a new vision of social welfare and equity.

¶45. (C) The countries that make up the ALBA trade block met in Venezuela on 6th June, 2007 for a meeting of the ALBA Foreign Ministers. The meeting set forth future integration projects, the initiative's organizational structure, and the countries agreed on the formation of an ALBA development bank.

¶46. (C) Upon closing the meeting President Hugo Chavez emphasized the importance of the ALBA program as a counterforce to the FTAA, which he labeled imperialist and hegemonic. 'We must go on visualizing a federation or confederation of ALBA states' he said, emphasizing the need to free the region of the old types of integration that there have been in Latin America. President Chavez stated that they had to pay special attention to not turn the ALBA integration project into a project "with the same vices of the integration models that we have had since a long time ago. ALBA has to be distinct," he concluded.

¶47. (C) President Chavez has been pressing Jamaica to join the ALBA and emphasized this to Prime Minister Simpson Miller during his last visit to Jamaica on 12th March 2007 to conclude an MOU on the Development and Expansion of Gas in Jamaica. On that occasion he pointedly juxtaposed his invitation for Jamaica to join ALBA with his offer of economic and technical assistance. For example, in confirming his government's intention to supply the natural gas that Jamaica needed to expand its bauxite industry, he pointed out that, via ALBA, Jamaica could go further and develop the process towards aluminium, aluminium oxide and various alloys. He remarked that "whatever Jamaica decides on it (i.e. to join ALBA), we would look for resources within ALBA to develop that chain, as we are currently doing with Cuba with steel, for instance."

Benefits of the Relationship to Venezuela

¶48. (C) The Chavez Administration has provided significant levels of support to Jamaica, both in financial and economic terms. The question that therefore arises is, "What does Venezuela wish, or expect to receive, in return?"

¶49. (C) In point of fact, the Venezuelan government has not requested a quid pro quo for the support and assistance it has rendered to Jamaica thus far. This, however, may point more to the subtlety of the modus operandi adopted by the Chavez government's relations with Jamaica, than a genuine lack of expectation for a future pay-off. If this is the case, it would reflect a deftness of approach not witnessed in Chavez's relations with other countries in the hemisphere.

¶50. (C) The two areas in which the Chavez administration would mostly benefit, in terms of support from Jamaica are:

- ¶A. International Support
- ¶B. Ideological endorsement

¶51. (C) These two areas bear some relationship to each other as the position adopted by Venezuela internationally,

together with the support it seeks from its international partners have become more conspicuous as a result of the strong ideological beliefs espoused by President Chavez. A vote cast in support of Venezuela within multilateral fora is very closely scrutinized, precisely because of the ideological positions adopted by its President.

International Support

¶52. (C) Venezuela, as is the case with most countries, places a priority on gaining the backing of those countries within its regional ambit. This includes the candidatures it puts forward for seats on international bodies. That it would court Jamaica's vote for its bid to secure a non-permanent seat on the UN Security Council is therefore unsurprising. One can reasonably assume that, given the level of assistance provided to Jamaica and in view of the traditional strong bonds of friendship between the countries, Venezuela harboured a reasonable expectation that it would have received Jamaica's support.

(END TEXT PART ONE SEE SEPTTEL FOR PART II)

JOHNSON